

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 SP-02 AID-05 NSC-05

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FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 8051

INFO AMEMBASSY AMMAN

AMEMBASSY ATHENS

AMEMBASSY ANKARA

AMEMBASSY CAIRO

AMEMBASSY DHAHRAN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY SANA

AMEMBASSY TEHRAN

AMEMBASSY TEL AVIV

AMEMBASSY TRIPOLI

USEC BRUSSELS 903

USOECN PARIS UNN

USCINCEUR

USCINCMCAFSA

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E.O. 11652: N/A

TAGS: ECON, ECRP, LE

SUBJECT: CERP 0003: PERIODIC ECONOMIC REVIEW

1. SUMMARY. ECONOMIC AND COMMERCIAL ACTIVITY HAS NOW
BEEN PARALYZED FOR FOUR MONTHS. ECONOMY HAS SHIFTED FROM
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ON PROVIDING MAJOR REGIONAL SERVICES TO ONE STRUGGLING TO

PROVIDE ESSENTIALS FOR LEBANON'S OWN POPULATION. PAST TWO-THREE WEEKS SHOW AN INCREASE IN THE NUMBER OF NEEDY FAMILIES; HOWEVER NUMBER APPEARS STILL TO BE RELATIVELY SMALL--PROBABLY 10PCT OR LESS AMONG MOST CONFESSIONAL COMMUNITIES.

2. AS LONG AS VIOLENCE CONTINUES ECONOMIC OUTLOOK REMAINS BLEAK, AND ECONOMY FACES INCREASING DISINTEGRATION. IN EFFECT, COUNTRY IS DIVIDING INTO CONFESSIONAL ECONOMIC UNITS-- E.G. TRIPOLI AND THE MOSSLEM AREA TO THE NORTH, THE MOUNT LEBANON VICINITY, AND THE MAINLY MOSLEM AND PLESTINIAN SOUTHERN PORTION OF THE COUNTRY. DISTRIBUTION PROBLEMS ARE SEVERE IN AREAS LIKE BEIRUT WHERE CONFESSIONAL COMMUNITES ARE MIXED. END SUUMMARY.

3. ECONOMIC CONDITIONS PARALYZED SINCE SEPTEMBER, BEIRUT ECONOMY WAS DEALT ANOTHER SEVERE BLOW BY THE INTENSE FIGHTING IN EARLY DECEMBER. THE XTENSIVE DAMAGE TO THE PHOENICIA, THE HOLIDAY INN, AND ST.GEORGES HOTELS DEPRIVED BEIRUT OF ITS DELUXE ACCOMMODATIONS FOR USE IF AND WHEN TOURISTS AND BUSINESSMEN DECIDE TO RETURN. SO FAR THE OWNERS OF THESE FACILITIES HAVE GIVEN NO INDICATION WHEN OR WHETHER THEY MIGHT UNDERTAKE REPAIRS. COMMERCIAL CENTER OF THE CITY WHERE MOST BANKS ARE LOCATED AND WHERE NOW BURNED-OUT SOUKS LIE IN RUBBLE, HAS CONTINUED TO BE SCENE OF FIGHTING. PORT, WHERE THE EARLY DECEMBER VIOLENCE BEGAN, REMAINS CLOSED. LOOTING THERE IS REPORTED TO BE EXTENSIVE.

4. DISTRIBUTION SYSTEM IN BEIRUT WORKS QUIXOTICALLY, AS LULLS IN FIGHTING PERMIT. VEGETABLE, FRUIT, AND MEAT SOUKS, OWNED MAINLY BY MOSLEMS, HAVE MOVED FROM DESTROYED CENTER OF CITY TO THE SABRA PALESTINIAN CAMP AREA. TO SUPPLEMENT FOOD SUPPLIES OBTAINED FROM MOUNT LEBANON, CHRISTIAN GROCERS FROM ASHRAFIA AND ELSEWHERE RENDEZVOUS WITH INTERMEDIARIES NEAR MUSEUM ON CORNICHE MAZRAA. SMALL CLOTHING MERCHANTS AND HOUSEWARE SELLERS HAVE SET UP CAR SOUKS ALONG CORNICHE AND CERTAIN OTHER AREAS OF BEIRUT. GARBAGE CLUTTERS HAMRA AREA, BUT MANY SHOPS OPEN MOST DAYS.

5. WINTER HAS LITERALLY BROUGHT HOME EFFECT OF POL SHORTAGE. FOR LACK OF GAS-OIL, BUILDINGS IN MANY AREAS (ESPECIALLY LIMITED OFFICIAL USE

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RAS BEIRUT) LACK HETA, HOT WATER. IN ADDITION COOKING GAS IS IN SHORT SUPPLY. GASOLINE, ALSO IN SHORT SUPPLY, IS LESS OF PROBLEM BECAUSE OF DECREASED TRAFFIC. ALL POL PRODUCTS SELL AT HIGH PREMIUM WHEN AVAILABLE.

6. APPARENT INCREAS IN NUMBER OF NEEDY COINCIDES WITH INCREASE IN INFLATION RATE AND FREQUENCY OF LOOTING. POROBLEM IS NOT A SHORTAGE OF FOOD AND BASIC COMMODITIES

IN BEIRUT AREA AS A WHOLE, ALTHOUGH SUPPLIES ARE GENERALLY LESS ABUNDANT NOW. BROBLEM RATHER IS SHORTAGE OF MONEY AND LOCAL SHORTAGES CAUSED BY DISTRIBUTION PROBLEMS. BECAUSE BANKS WERE CLOSED AT THE END OF THE YEAR, SALARIES AND BONUSES NORMALLY PAID AT THE END OF DECEMBER COULD NOT BE DISTRIBUTED. MOREOVER, THE DECEMBER-JANUARY FIGHTING HAS SUFFICIENTLY DISRUPTED THE DISTRIBUTION SYSTEM SO AS TO ACCELERATE THE INFLATION RATE SINCE MID-DECEMBER. GUESS IS THAT BEIRUT FOOD PRICES OVERALL HAVE INCREASED ON AN AVERAGE OF 30PCT OR MORE IN LAST FEW WEEKS. STAPLES FLOUR, RICE, & POULTRY HAVE RISEN AN ESTIMATED 50 PCT. AMOUNT OF INCREASE VARIES WIDELY AMONG AREAS, DEPENDING ON RESUPPLY AND STOCKS. LULL IN FIGHTING LONG ENOUGH TO ALLOW BANKS TO OPEN AND DISTRIBUTION SYSTEM TO WORK WILL LIKELY AMELIORATE TO SOME DEGREE POVERTY AND INFLATION PROBLEMS.

7. A PRINCIPAL QUESTION IS WHY HAS IT TAKEN SO LONG FOR BEIRUT TO BEGIN TO FEEL THE CONOMIC PINC. THE ANSWER IS THAT MUCH OF THE CITY IS DEPOPULATED BECAUSE FOREIGN RESIDENTS HAVE RETURNED HOME AND MANY BEIRUTIS HAVE EITHER GONE OVERSEAS OR FLED TO THE MOUNTAINS (SEE BEIRUT A-001, 1/5/76). SECONDLY, THE LARGE INVENTORIES OF GOODS STOCKED FOR NONEXISTENT TOURIST TRADE HAVE BEEN SUPPLEMENTED BY DIVERSION (SOMETIMES BY LOOTING) TO BEIRUT MARKET OF PORT "FREE ZONE" STOCKS IN TRANSIT, AND BY SMUGGLING (PROBABLY LARGE-SCALE) THROUGH SYRIA. SOME VOLUNTAARY RATIONING HAS OCCURRED AND CUSTOMERS HAVE SETTLED FOR PRODUCTS IN FORMER TIMES CONSIDERED UNDESIRABLE.

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FM AMEMBASSY BEIRUT
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INFO AMEMBASSY AMMAN
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8. IN THE ABSENCE OF THE NORMAL GOVERNMENT SERVICES,
NEIGHBORHOOD COMMANDERS HAVE TAKEN ON MANY PUBLIC SERVICE
RESPONSIBILITIES. PHALANGE, FOR EXAMPLE, HAVE DIVIDED
ASHRAFIEA INTO TEN ADMINISTRATIVE DISTRICTS FOR THE PROVISION
OF PUBLIC SERVICES. NASSERITE COMMANDER QULAYLAT, WHO
CONTROLS AIN MREISSE AND OTHER DISTRICTS OF BEIRUT, HAS
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BOASTED OF HIS GARBAGE COLLECTION SERVICES. BEIRUT MAGAZINE
"MONDAY MORNING" RECENTLY PUBLISHED LIST OF NINE GROUPS
INCLUDING THE PHALANGISTS, THE PALESTINIANS, AND OTHER
PRIVATE MILITIA AS WELL AS THE OFFICIAL "SQUAD 16" POLICE
TO CALL IN THE EVEN OF EMERGENCY.

9 THE ECONOMIC SITUATION OUTSIDE OF BEIRUT APPEARS
TO BE CONSIDERABLY BETTER. BANKS HAVE BEEN MORE FREQUENTLY
OPEN IN SIDON AND TRIPOLI, ALTHOUGH BANKS IN THESE CITIES
REFUSE TO ACCEPT DRAFTS ON THEIR BEIRUT BRANCHES. PORT
FACILITIES IN TRIPOLI ARE OPERATING AT LEAST TO SOME
DEGREE, AND SOME GOODS ARE BEING BROUGHT IN THROUGH
SIDON AND JUNIEH. JUNIEH, FOR EXAMPLE, REPORTEDLY
OFFERS PERIODIC FERRY SERVICE (FOR CHRISTIANS) TO CYPRUS
WHERE AIR CONNECTIONS CAN BE MADE TO EUROPE AND ELSEWHERE.
MOREOVER, IPC REFINERY AT TRIPOLI PROVIDES POL TO NORTH
PART OF COUNTRY, AND MEDRECO NEAR SIDON IS PROVIDING POL
TO SOUTH AS WELL AS THE BEKAA VALLEY. SCHOOLS IN SEVERAL
AREAS OUTSIDE BEIRUT ARE OPEN.

10. OUTLOOK. BECAUSE OF THE CONTINUED FIGHTING, THE LEBANESE ECONOMY HAS SHIFTED FROM ONE WHICH PROVIDE MAJOR SERVICES TO THE ENTIRE MIDDLE EAST REGION TO ONE WHICH IS TRUGGLING TO PROVIDE THE ESSENTIALS FOR LEBANON'S OWN POPULATION. IF THE FIGHTING CONTINUES, RELATIVELY LOW BUT INCREASING PERCENTAGE OF BEIRUT'S POPULATION NOW IN NEED WILL INCREAS AS MORE COMPANIES ARE UNABLE TO CONTINUE THE PRACTICE OF PAYING AT LEAST PARTIAL SALARIES WHETHER OR NOT EMPLOYEES WORK. MOREOVER IF LULLS IN FIGHTING ARE NOT LONG ENOUGH TO ALLOW BANKING AND DISTRIBUTION SYSTEM TO WORK, INFLATION AND SHORTAGGE PROBLEM WILL BECOME MORE ACUTE. WHEN BANKS REOPEN THE LEBANESE POUND WILL PROBABLY DEPRECIATE AGAINST THE DOLLAR, BUT THE LARGE FOREIGN EXCHANGE AND GOL HOLDINGS AT THE CENTRAL BANK WILL LIKELY SET LIMITS TO THE RAPIDITY AND EXTENT OF THE DEPRECIATION. OFFICIAL BALANCE OF PAYMENTS ACCOUNTING THIS YEAR MAY TURN OUT TO BE LARGELY MEANINGLESS BECAUSE OF THE SUBSTANTIAL AMOUMNTS OF SMUGGLING AND OTHER ILLICIT ACTIVITIES THAT WILL PROBABLY CAUSE THE "ERRORS AND OMISSIONS" ENTRY TO BE EXTREMELY LARGE. 1975 GNP WHICH EMBASSY ESTIMATED AT 6-7 BILLION POUNDS AT END OF NOVEMBER (SEE 75 BEIRUT A-222) LIMITED OFFICIAL USE

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MAY BE EVEN LOWER IN TERMS OF REAL GOODS AND SERVICES PRODUCED, GIVEN FACT THAT THERE WAS LITTLE ECONOMIC AND COMMERCIAL ACTIVITIY IN DECEMBER.

11. AS GOVERNMENT BUREAUCRACY HAS NOT FUNCTIONED IN MONTHS, TAX COLLECTIONS AND GOVERNMENT DISBURSEMENTS HAVE NOT BEEN MADE. THE GOVERNMENT'S RESOURCES AT THE MOMENT CONSIST MAINLY OF BALANCES ACCRUED BEFORE THE FALL VILLENCE BEGAN. IN LIGHT OF DECREASED REVENUES AND THE ECONOMIC DISARRAY, THE CABINET (WHICH IS EMPOWERED TO ENACT THE BUDGET BY DECREE) WILL LIKELY HAVE TO REVISE SOON THE CY 76 BUDGET. MAJOR OUTSIDE FINANCING MAY BE REQUIRED.

12. IN SUM, AS LONG AS THE VIOLENCE CONTINUES, THE ECONOMIC PICTURE REMAINS BLEAK, AND DISINTEGRATION OF ECONOMY PROCEDES. PROSPECTS FOR IMPROVEMENT DEPEND ON RESTORATION OF PEACE. AFTER A POLITICAL SETTLEMENT, MAJOR DETERMINANT OF THE RAPIDITY OF THE COUNTRY'S ECONOMIC RECOVERY WILL BE HOW SOON FOREIGN BUSINESS COMMUNITY AND TOURISTS ARE WILLING TO RETURN. UNLIKE IN THE AFTERMATH OF 1958 & 1973 WARS, LEBANON WILL ALSO FACE REPAIRS TO THE COUNTRY'S ECONOMIC INFRASTRUCTURE DAMAGED IN THE FIGHTING.

13. IMPLICATIONS FOR U.S. A MAJOR IMPLICATIONNFOR U.S. IS THATTBEIRUT WILL NOT BE ABLE TO RESUME ITS FUNCTIONS AS MAJOR REGIONAL CENTER IN THE NEAR TERM. WHEN PEACE

RETURNS, HOWEVER, WE BELIEVE BEIRUT WILL PROBABLY RECOVER
AN IMPORTANT BUT DIMINISHED ROLE AS A CENTER FOR BUSINESS
IN THE MIDDLE EAST. GIVEN THE DEGREE OF DISRUPTION OF
LEBANESE ECONOMY AND SOCIETY, WE WOULD NOT RECOMMEND
U.S. DIRECT INVESTMENT AT THIS TIME. THE EFFECTS OF THE
FIGHTING ON THE LEBANESE BANKING, COMMUNICATION, AND
TRANSPORATION SYSTEMS LIMIT SHORT TERM PROSPECTS FOR
U.S. EXPORTS TO LEBANON, BUT THE ECONOMY RECOVERY AFTER
THE VIOLENCE SUBSIDES WILL LIKELY OFFER EXPORT OPPORTUNITIES.
GODLEY

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